

February Recap

Taken together, February saw markets navigating through a rapidly developing AI-landscape, shifting monetary policy expectations, and increased geopolitical uncertainty. Most notably, this past month saw investors shifting from what was once indiscriminate allocation to what is now structured selection, as investors aim to differentiate between the winners and losers of this current AI-environment. Outside of this, last month markets had to digest an economy displaying signs of cooling inflation alongside a slowing labor market. This month, however, the data has shifted in the opposite direction, presenting a markedly different economic backdrop. The emergence of these developments, paired with elevated geopolitical uncertainty, has left investors increasingly cautious in their capital allocation decisions, lowering overall risk appetite.

The AI Trade: From Euphoria to Fear

Up until recently, any AI-related development was received positively by investors. In what was infamously known as the “AI-Trade” investors started rotating their capital into companies even remotely related to any step within the AI cycle. Whether it was those who spent, or those who provided the infrastructure, investors were indifferent. This was the case for 2024, and much of 2025, however, for 2026 it has been different.

As previously mentioned, investors have, in the past, positively reacted to any developments within the AI-landscape. This past month saw the reversal of this trend. After Anthropic had announced the release of its new Claude AI platform, markets started to intensify existing concerns surrounding AI-driven disruption. In particular, the software-sector was hit the hardest. Investors started to question what the rapid development of AI would mean for certain industries, and the potential implications it could have in terms of revenue erosion, and margin compression. Outside of the software realm, many firms situated within the wealth management industry, as well as private equity, experienced a similar phenomenon. Investors are starting to come to terms with what the development of artificial intelligence could have on many of the services provided today, and what it could look like in the future. With this in mind, it’s clear that investors have moved away from that initial euphoria stage and instead have become much more grounded. What was once indiscriminate capital allocation has now turned into rigorous scrutiny, with investors increasingly focused on identifying the structural winners and those most vulnerable to disruption as AI adoption accelerates.

Scrutinized Spending

This past month saw many investors starting to question the elevated levels of spending being taken on by many of the tech heavyweights today. Amazon, Alphabet, Microsoft, and Meta are those at the center of this shift in sentiment. A common theme across these companies has been record projected spending for the year ahead, accompanied by a notably negative response from investors.

Investors are now starting to question the validity of the expectations surrounding this spending, and this has been the driving force in the reactions we have seen so far. In particular what lies at the center of it all is the questioning of whether or not this spending will lead to earnings expansion down the road in one way or another. Whether through greater efficiency, cost reductions, improved service delivery, or other measurable benefits, investors are increasingly demanding clear evidence that these gains are materializing.

On this note, it is worth noting that this stance has driven differentiation in how this sentiment has been allocated amongst the names mentioned above. In particular it has been Meta who has fared the best when it comes to investor reaction. Despite being down on the month, Meta has received an alleviated response from investors due to it being able to display the positive implications that have come about through its integration of AI within the wide suite of its social media offerings. Improvements have come along but they are still far from what has been projected. As time goes on, it will become increasingly important to pay attention to how investors react to the progress that is being made by those who are heavily spending on AI and the gains that have or can be realized from it.

Economic Data Sends Mixed Signals

Last month markets had come to terms with economic data that signaled cooling inflation and slowing employment. This past month's economic data displayed somewhat of a similar trend.

When it came to employment data, this past month's report signaled a stronger labor backdrop. January's "jobs report," which reflected December's employment data, displayed a slowing labor market, in which only 50,000 nonfarm payroll jobs had been added. On an annual basis, 2025 had seen average monthly employment gains of 48,000, the lowest growth since 2020. However, this month's job report, which reflected January's employment data signaled a reversal of this trend. January alone saw non-farm payroll employment rise by 130,000, far above analyst estimates centered around the 50,000 range. This growth was primarily driven by increased employment within the healthcare, social assistance, and construction sectors. While the labor market has begun to show signs of improvement, price pressures have started to move the opposite way.

For the most part, January's CPI continued to signal an economy that continues to experience cooling inflation. For the twelve months ended December, the Core CPI had rose 2.6%, the exact same figure reported for the twelve months ended November 2025. This past month's report, reflecting January's price data, showed that inflation had started to cool, with Core CPI rising 2.5%, in line with analysts' expectations.

The combination of easing inflation alongside a stronger labor market complicates the policy outlook. While moderating price pressures support the case for eventual easing, labor market resilience reduces urgency for rate cuts. Consistent with this tension, the Federal Reserve has maintained a restrictive posture, as reflected in recent FOMC minutes. That said, markets have not fully ruled out easing later in the year, with futures implying roughly an 83% probability of a June rate cut.

Fiscal Policy Remains Volatile

On February 20th, the Supreme Court had announced that it had ruled against the tariffs implemented by the Trump Administration under the IEEPA (International Emergency Economic Powers Act) act. In response to this ruling President Trump had announced that he would be enacting Section 122 of the Trade Act of 1974, a statute that allows any U.S. President to impose temporary surcharges, or tariffs, of up to 15% for 150 days. While President Trump had previously indicated that tariffs would be implemented at the upper end of the proposed range, the administration later scaled them back to 10%. It is important to note that the tariffs under the IEEPA were differentiated, which allowed for the imports of certain countries to be taxed differently. Tariffs implemented under Section 122 of the Trade Act are much more uniform, in the sense that all foreign importers are taxed the same.

The implementation of this new set of tariffs had experienced a mixed reaction. On one hand, countries most heavily impacted by the previous round of tariffs are now poised to receive relief under the revised framework. Among them, China stands out as the most notable. However, on the other hand, countries that had previously not been impacted, are now set to bear the burden of this new excise tax. Australia falls under the latter and had vocalized its concerns surrounding this situation.

Markets have continued to question the implication of our current fiscal policy, and what the uncertainty surrounding it could possibly lead to. Many companies, for example, will continue to have a difficult time planning expenditures and long-term expenses based on the volatile nature of our current foreign policy, which in turn will ultimately lead to investors requiring a stronger rate of return. The potential risk of inflationary pressure also rises, which may ultimately lead to the Fed maintaining a stricter monetary policy, lowering equity valuations. In response to these potential implications, markets may even begin to start seeing investors rotate out of equities, and into treasuries in response to a reduced appetite for foreign policy related risk. Moving forward, increased emphasis will be placed on how many of the participants within our economy could be impacted by these tariffs, and what future courses of action could potentially look like.

Private Credit Steals the Spotlight

In the past investor concerns surrounding elevated spending had typically been centered around those who had been undertaking it, not those who had been providing it. Recently, after a series of developments, this trend has changed.

Blue Owl Capital, an alternative asset management company, had stole the headlines when it announced changes to the withdrawal rules of its retail private credit fund. Previously under its retail fund, known as OBDC II, retail investors were allowed to withdraw their investments at set quarterly intervals. In its announcement this month, Blue Owl had announced that this structure was going to be eliminated, and that instead it would sell off its assets and use those proceeds to pay investors off on an unspecified timeline. While the firm's management emphasized that this was not necessarily liquidity restriction, but rather acceleration, markets weren't convinced. The announcement triggered a broader selloff across the

alternative asset management space, with Blue Owl, Ares Management, and KKR all trading lower. This development within the Credit sector further heightened concerns regarding the manner in which many spending across the economy is being financed.

While this development brought investor concerns to the forefront, it was not the sole catalyst. Prior to this event, reports had come out that investor demand for hyperscaler credit derivatives had become prevalent, a class of derivatives that was virtually non-existent a year ago. A number of lenders that had supported the projected spending commitments of these technology companies are increasingly questioning the sustainability of those plans. This emergence has not only fueled demand for individually linked CDS's, but also for basket offerings as well. It's clear that the risk-appetite of financiers has gradually started to lessen as time has gone on. As such it will be important to place increased emphasis on what this could mean down the line when it comes to those who want to spend, and those who will provide for them.